Mr. Borden.

to be taken to Montreal

Exhibit 17-15-3

THE ROYAL COMMISSION ON ENERGY

SUBMISSION OF

SUN OIL COMPANY LIMITED

JULY, 1958

THE ROYAL COMMISSION ON ENERGY

SUBMISSION OF

SUN OIL COMPANY LIMITED

JULY, 1958

Mr. Askew Pres
Mr. Dunlop
Mr. Parmelee - Sec Treas

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ROYAL COMMISSION ON ENERGY

Submission of Sun Oil Company Limited

Toronto, Ontario.

There have appeared before you organizations of senior experience in Canada whose staffs of fact-finders demonstrated marked competence in collecting and analyzing information on the detail as well as the broad picture of the status and prospects of the Canadian petroleum industry.

It has not been our purpose to attempt a similar contribution since we doubt that there are very many correct answers to the same questions of fact. Nor have we had experience from which we feel competent to draw conclusions with respect to a few of the issues which our reading of the record indicates have been of particular interest to you.

It has been our feeling that what we say would be of greatest value to you if we could clearly present the picture of who we are, what we have done and why, what we are now doing and why, and what we hope to be able to do. Beyond that, within the limits of our knowledge and experience, we will be as responsive as possible to your specific questions.

COMPANY AFFILIATION

Sun Oil Company Limited, incorporated under the Dominion Companies Act, is a wholly-owned subsidiary of Sun Oil Company. The latter is an independent, integrated oil company incorporated in the State of New Jersey with principal offices at Philadelphia, Pennsylvania.

DESCRIPTION OF SUN OIL COMPANY

The parent company -- for brevity referred to as Sun Oil -- produces crude oil in 18 states and in the Provinces of Alberta, Saskatchewan and Manitoba, and has a working interest in a limited number of oil wells operated by others in British Columbia. About 80 per cent of Sun Oil's total crude oil production comes from Texas and Louisiana.

Sun Oil also produces natural gas in some of the States in which it is a producer of oil, has a few shut-in gas wells in Alberta, and a working interest in some producing and shut-in gas wells in Alberta and Saskatchewan.

Through subsidiaries, Sun Oil, since the middle of April, 1958, has produced crude oil in Venezuela and is engaged in oil exploration activities in several other countries, including Colombia, Guatemala, Pakistan and the Bahamas.

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DESCRIPTION OF SUN OIL COMPANY

The parent company -- for brevity referred to as Sun Oil -- produces crude oil in 16 states and in the provinces of Alberta, Saskatchewan and Manitoba, and has a working interest in a limited number of wells operated by others in British Columbia. About 30 per cent of Sun Oil's total crude oil production comes from Texas and Louisiana.

Sun Oil also produces natural gas in some of the places in which it is a producer of oil, has a few shut-in gas wells in Alberta, and a working interest in some producing and shut-in gas wells in Alberta and Saskatchewan.

Through subsidiaries, Sun Oil, since the middle of April, 1958, has produced crude oil in Venezuela and is engaged in oil exploration activities in several other countries, including Colombia, Guatemala, Pakistan and the Bahamas.

Sun Oil owns and operates a fleet of 14 ocean-going tankers, eight coastal tankers, and a number of barges and other water equipment.

Through subsidiaries, it owns and operates in the United States 1,723 miles of crude oil gathering and trunk pipe lines, and 1,214 miles of products pipe lines.

Sun Oil owns and operates two refineries -- one of 160,000 barrels daily capacity at Marcus Hook, Pennsylvania, and one of 95,000 barrels daily capacity at Toledo, Ohio.

It markets automotive products through service stations in 21 eastern and mid-western States and the District of Columbia, and markets industrial oils and specialty products in those and other States. Through subsidiaries, it markets industrial oils and specialties in most of the Free World.

Other subsidiaries are engaged in shipbuilding and repair; the design, sale and rental of oil well surveying instruments; and mercury mining.

Among U.S. oil companies, Sun Oil ranks between 11th and 14th in production, refinery throughput, sales and assets. It is owned by approximately 24,000 stockholders, of whom 348, largely because of a stock purchase plan for employees inaugurated in 1926, are resident in Canada.

BEGINNINGS OF SUN OIL COMPANY LIMITED

Sun Oil Company Limited -- referred to as Sun Limited for convenience -- began in a one-room office in Montreal in 1919. It came into being because the response of Sun Oil to military requirements for lubricating oils during the First World War found it, at the war's end, with expanded capacity and the need for more customers. Eastern Canada, accessible by water from Sun Oil's principal refinery on the Delaware River near Philadelphia, was a likely and economic market.

Thus the first mission of Sun Limited was to acquaint an increasing number of potential customers in Canada with the lubricants which constituted the principal business of Sun Oil in its early years.

From an object of market outlet at the beginning, Canada has come since 1945 to have a much deeper significance to the Sun organization.

Telescoping history between 1919 and 1945, the volume of business of Sun Limited in lubricants increased and in the 1920's retail gasoline distribution also was commenced.

SUN'S EXPANDING INTEREST IN CANADA

The year 1945 is a pivotal one because it marked the start of an expanded interest on the part of the management of Sun Oil with the long-range growth opportunities for risk capital which Canada offered. In that year Sun Limited drilled its first well in Canada along the northern border of Nova Scotia. It was completed as a dry hole.

The following year -- 1946 -- the site was chosen upon which the Sarnia Refinery of Sun Limited was subsequently built.

In 1953, while the Sarnia Refinery was under construction, Sun Limited joined with Canadian Oil Companies Limited to construct an 8-inch products pipe line extending from Sarnia to Toronto. For this purpose, Sun-Canadian Pipe Line Company Limited was organized as a subsidiary company, owned two-thirds by Sun Limited and one-third by Canadian Oil Companies Limited.

EARLY PRODUCTION ACTIVITIES

Until 1949, exploration and drilling activities by the Sun organization in Canada were carried on by Sun Limited. In the four-year period from 1945 to 1949, Sun Limited conducted field geology and seismic exploration activities in Nova Scotia and Alberta and drilled a total of four dry holes.

By the end of the four-year period, Sun Limited had expended on leasing, exploration and drilling activities the equivalent of approximately seven years of its anticipated net earnings. It was abundantly clear that Sun Limited could not afford a production department on such a scale. In March, 1949, the effort to develop Canadian production was transferred from Sun Limited to Sun Oil and organized as a new division of the parent company's production department with Mr. George E. Dunlap in charge.

Subsequent activities conducted by Sun Oil's Canadian production division have brought total investments by the Sun organization in the development and production of Canadian oil and natural gas to approximately $56,500,000.

The incapacity of Sun Limited to finance the costly development of oil and gas resources, so apparent in 1949, still prevails. In 1956 Sun Oil's Canadian production division showed a loss of

$2,637,000, and in 1957 a loss of $2,651,000. In contrast, the net earnings of Sun Limited for those years were substantially smaller than the losses in Canadian production.

We are confident that this condition will not continue indefinitely and that the integration of Sun Limited as a self-sufficient Canadian company, divorced to a far greater extent from its parent than is the case today, can be effected. This avowed intent of the Sun organization is discussed in greater detail at a later place in this brief.

SUN LIMITED'S REFINING OPERATIONS

Sun Limited commenced refining operations in November, 1953, in a refinery of 15,000 barrels per day design capacity at Sarnia, Ontario. It represented at the time of its completion advanced instrumentation and design, yielding desirable efficiencies as an offset to its small size, and at the same time a pioneering experiment in human terms. No employee of the refinery is hourly paid; all are on an annual salary.

In 1957 the Sarnia Refinery averaged 17,400 barrels per day of crude runs to stills. This established a record in its throughput, occasioned primarily by Sun Limited's expectation that it would have a market for the ensuing volume of products. The expectation unfortunately proved unfounded, due to the combination of events which adversely affected the general economy in the last half of the year. In the first six months of 1958 the refinery has operated below its design capacity.

The Sarnia Refinery is equipped to manufacture motor gasoline, kerosine, heating oil, residual fuel oil, butanes, and fuel gas. It is too small to support the economic manufacture of lubricating oils. At the same time it has proved thus far to be too large to find outlet within Canadian markets developed to date by Sun Limited for the total quantity of motor fuel it is

capable of making. Sun Limited has been detained in the realization of its marketing goals for automotive gasoline by increasing competition in retail sales and the rising cost of service station construction.

SARNIA REFINERY CRUDE SUPPLY

Sun Limited's entry into refining was made in anticipation of providing an outlet for western Canadian crude oil production, part of it resulting from Sun Oil's continuing investments in exploration and drilling. At the time the crude supply for the Sarnia Refinery was planned, western Canadian crude was accessible only by water transportation from Superior, Wisconsin. However, discussion of an extension of the Interprovincial Pipe Line was prevalent, and this mode of transport was much to be favoured over the use of lake tankers. The extension of Interprovincial was taken into account in future planning. In the meantime, however, through a combination of economic factors and business opportunity, Sun Oil had engaged in two pipe line projects which fitted neatly for an interim period into the solution of the Sarnia Refinery's crude supply problem.

In 1949, in a move essential to the maintenance of the competitive position of its refinery at Toledo, Sun Oil joined with Standard Oil Company (Ohio) to build a large-diameter crude oil pipe line from Longview, Texas, to Lima, Ohio. For this purpose the Mid-Valley Pipe Line Company was organized. Over and beyond the money directly invested, Sun Oil and Standard Oil Company (Ohio) each guaranteed repayment of

50 per cent of the original borrowings by Mid-Valley amounting to $49,500,000. As of December 31, 1957, nearly $22,000,000 of mortgage bonds obtained by Mid-Valley were yet to be repaid.

From its terminal at Lima, the Mid-Valley line joins another common carrier -- the Buckeye Pipe Line System, in which Sun Oil has no ownership. Directly and through this and other interconnections, the Mid-Valley line delivers crude oil from the Gulf Coast-Southwest area to refineries located at Toledo (including Sun's), Findlay, Lima, Cleveland, Canton and Cincinnati in Ohio, and at Latonia, Kentucky, and Magnolia, Arkansas.

A map of the Mid-Valley system and interconnecting lines is shown as an attachment to this submission.

The Mid-Valley line is approximately 1,000 miles long and is constructed of 20- and 22-inch pipe. Its capacity is approximately 235,000 barrels daily. In 1952 Gulf Oil Corporation purchased a 9 per cent interest in Mid-Valley.

The second pipe line project which subsequently figured in the Sarnia Refinery's crude supply was started in 1950 and completed at a cost of $2,700,000 in January, 1951, by Susquehanna Pipe Line Company, predecessor to Sun Pipe Line Company, a wholly-owned Sun Oil subsidiary. This is an 8-inch

products pipe line extending from Sun Oil's Toledo Refinery to a large Sun Oil terminal at River Rouge, Michigan, and thence to Sarnia. The Toledo-Detroit section was made imperative by a sharp expansion in volume of business through the River Rouge terminal. The Detroit-Sarnia section of the line held several possibilities. First, it anticipated the future crude requirement of the Sarnia Refinery, tieing in with the Mid-Valley-Buckeye systems. Second, the line could ultimately be used also for the transportation of products. Third, it provided an immediate opportunity to reduce costs in the delivery of butylene to the Polymer Corporation at Sarnia. Sun Oil had been a successful bidder in supplying this Canadian Government-owned synthetic rubber plant, and for lack of any other available transportation had been required to make high-cost shipments by rail from Toledo. In the interest of assisting the Polymer Corporation, construction of the line to Sarnia was completed almost three years before the Sarnia Refinery came on stream. Completion of this line enabled Sun Oil to make a significant reduction in the laid-down cost of butylene at Sarnia.

Contemplating the completion of the Sarnia Refinery, then, it was apparent that it could take over part of the task of supplying butylene to the Polymer Corporation. This would reduce the load

on the Toledo-Sarnia line, giving the line sufficient capacity to handle the crude requirement of the Sarnia Refinery in addition to intermittent shipments of heating oils made subsequently to meet peak winter demands. To accomplish all this, a second products line from Toledo to Detroit would be needed. This second line was completed in July, 1953, and the very limited storage constructed at Sarnia was amply supplied with Southwestern United States crude by the time the Sarnia Refinery began its initial runs in November, 1953.

It was at this approximate time that the Superior-Sarnia extension of the Interprovincial system was completed. The Sun organization did not, however, look upon the conversion of the Toledo-Sarnia line as committing the Sarnia Refinery irrevocably to United States crude oil, as the subsequent record bears out. On the other hand, having conceived and commenced these facilities before an economic alternative was available, and having committed funds to them, both directly and by guarantees, it was obviously desirable to operate them and to attempt to make them pay for themselves.

From the beginning until March, 1957, the Sarnia Refinery operated exclusively on United States crude. In that month, it commenced running 4,000 barrels per day of Interprovincial

Pipe Line Mix which continued until October 1, 1957. No Canadian crude was run for the next 90 days. On January 1, 1958, the Sarnia Refinery resumed the use of Canadian crude at a rate of 6,000 barrels per day, and in June, 1958, the rate was doubled to 12,000. It is our expectation that this rate will continue for some time, but that ultimately the Sarnia Refinery will operate, as originally planned, 100 per cent on Canadian crude.

The background may be of interest to you. For the first two to two and one-half years of its operation, the Sarnia Refinery exercised extreme measures to avoid the production of residual fuel oil. Sun Limited had not been a marketer of this product; consequently it had no outlets. Because of its nature and the effect of extreme winter temperatures, residual fuel oil requires extensive storage and expensive transportation. It is at the same time a low-value product and yet one which can shut a refinery down unless shipments bear a reasonable relationship to storage and the rate of output. While Sun Limited worked to develop markets for this product, the availability of lower residual-content crudes from the United States was a decided advantage to the continued operation of the Sarnia Refinery.

When, in early 1957, the various factors bearing on the situation were as a matter of business judgment favourable to the utilization of Canadian crude at the Sarnia Refinery, an unusual arrangement had to be worked out in the absence of a direct connection between the Sarnia Refinery and the Interprovincial line. The arrangement consisted of an agreement with Imperial Oil Limited to receive and transfer Interprovincial Pipe Line Mix for Sun Limited. This was accomplished with a combination of pumps at the Imperial refinery and at the pumping station near Sarnia of the Sun-Canadian Pipe Line Company Limited. These pumps handle the back-haul movement from Imperial to Sun Limited through a short interconnecting pipe line constructed for the purpose.

Sun Limited paid for the original pump installation and under its arrangement pays Imperial a per-barrel terminaling fee. When it became possible in June of this year to double the Sarnia Refinery's utilization of Canadian crude, additional expenses were incurred to expand these facilities.

The original arrangement for the movement of Canadian crude to the Sarnia Refinery was made in February, 1957. The following month Sun Limited arranged for a meeting on April 12, 1957, with Interprovincial Pipe Line Company to

discuss a direct connection with the Sarnia Refinery. Following this meeting, Sun Limited supplied to Interprovincial an engineering print of the tankage at the Sarnia Refinery necessary for Interprovincial's design of the interconnection. Finally, by letter dated August 14, 1957, Sun Limited informed Interprovincial as follows:

> "We hope that we can be in a position to receive Canadian crude via Interprovincial by May of 1958. We cannot be very definite at this time as to quantity; but it will vary from 5,000 to 20,000 barrels per day. It is our intent to eventually run all Canadian crude, and within six months to a year, we should average 20,000 barrels per stream day."

On March 21, 1958, Interprovincial informed Sun Limited that it had made considerable progress in obtaining right of way for the interconnecting line and that it expected to be able to deliver crude directly to the Sarnia Refinery beginning August 1, 1958. An investment of $400,000 was necessary to handle direct receipts of crude from Interprovincial.

The gap in the Sarnia Refinery's use of Canadian crude during the last quarter of 1957 also is worthy of comment.

Growing out of the supply difficulties occasioned by the closure of the Suez Canal, Sun Oil entered into additional crude purchase contracts in the United States extending to December 31, 1957. Suez opened much earlier than anticipated. This, coupled with the general downturn in economic conditions, created a serious condition of crude over-supply for Sun Oil. Its efforts to be relieved of the additional crude purchase contracts it had undertaken were unavailing. To the extent of 4,000 barrels daily for a period of three months, Sun Limited contributed to the solution of this difficulty on the part of the parent company.

The 12,000 barrels daily of Canadian crude now being run at the Sarnia Refinery exceeds Sun Oil's net production in western Canada by approximately 7,000 barrels per day; exceeds its economic allowable by approximately 5,000 barrels per day; and falls short of its Maximum Permissive Rate by approximately 2,300 barrels per day. As these figures indicate, Sun Limited's refining operations at Sarnia now provide a market for Canadian crude substantially exceeding the parent company's present production and close to the total quantity of Canadian crude that the parent company could produce under optimum

conditions of demand.

Above the 12,000 barrels daily of Canadian crude now being utilized, Venezuelan crude is being purchased at a rate of 5,000 barrels per day to make up the balance of runs to stills at the Sarnia Refinery which presently total 17,000 barrels daily. This crude reaches the Sarnia Refinery from the U.S. Gulf Coast via the Mid-Valley, Buckeye and Sun Pipe Line Company Lines.

Before in fact commencing the run of the Venezuelan crude at the Sarnia Refinery, Sun Limited and Sun Oil made earnest efforts to trade this crude with eastern Canadian refiners in exchange for western Canadian crude which could be brought to the Sarnia Refinery via the Interprovincial line.

SUN LIMITED'S MARKETING OPERATIONS

Sun Limited markets in the Provinces of Ontario and Quebec. It operates pipe line terminals and warehouses at London and Hamilton, a pipe line and marine terminal and warehouse at Toronto, and marine terminals and warehouses at Cobourg, Morrisburg and Montreal. The Toronto terminal includes a plant, recently completed, which marked a further step in transferring to Canada operations formerly conducted in the United States. This plant now handles the blending, canning, barreling and packaging of motor lubricants, greases and other products for the Canadian market. It represents an investment of $1,600,000.

Sun Limited also supplies the bulk plants of four distributors whose operations cover part of the Ontario market served by Sunoco automotive products. Including service stations and other outlets served by these distributors, Sun Limited markets automotive products at retail through a total of 755 outlets.

Efficient distribution of products by Sun Limited is greatly facilitated by the Sun-Canadian Pipe Line, already mentioned. This line, constructed at a cost of $5,400,000, carries products eastward from the Sarnia Refinery to the

terminals at London, Hamilton and Toronto. It was built to deliver 17,500 barrels daily with a single pumping station at Sarnia. This capacity can be doubled with the addition of more pumping stations. Financing for the Sun-Canadian line was arranged through Canadian insurance companies and banks, with Sun Limited and Canadian Oil Companies Limited providing the customary guarantees.

Lubricating oils and industrial products which the Sarnia Refinery is not able to manufacture are brought in by water from the Sun Oil refinery at Marcus Hook, with the exception of limited shipments which must still be made by rail into Montreal. The St. Lawrence River and the New York State Barge Canal both figure in the water movements of these products. Sun Limited also imports furnace oils by water and pipe line to handle peak winter requirements.

In all aspects of its business, the Sun organization has traditionally sought, through extensive plow-back of profits and the prompt abandonment of inefficient facilities and methods, to apply an aggressively competitive approach which has resulted in direct and tangible benefits to the public.

In the case of Canadian consumers, Sun Limited in April, 1954, adopted a pricing policy that brought a new element of

competition to automotive gasoline markets in Ontario and Quebec. Prior to that date Sun Limited marketed one motor fuel. This fuel met the Ethyl Corporation specifications for premium grades. Since April, 1954, the identical product has been marketed continuously at prices competitive with the regular grades offered by others. Within 12 months of the change-over the average octane quality of regular-grade gasolines marketed by the industry in eastern Canada increased. In Montreal, for example, the increase was from 86.8 to 89.1 octane as determined by analyses published by the Du Pont Company.

Within the past few weeks Sun Limited has introduced a completely new system of custom-blending motor fuels which represents the most radical engineering advance in the technique of gasoline marketing in 40 years. It, too, provides tangible benefits to motorists.

CANADIAN PRODUCTION ACTIVITIES

There is appended to this submission Table A which provides details on the producing and non-producing land holdings of Sun Oil in western Canada.

In summary, this table shows that in the Provinces of Alberta, Saskatchewan, Manitoba, British Columbia and the Northwest Territories, Sun Oil has non-producing land holdings through 4,343 leases covering 1,471,841 net acres, and 27 reservations covering 701,423 net acres.

In the Provinces of Alberta, Saskatchewan and Manitoba, the producing land holdings include 87 leases covering 42,611 gross acres and 19,064 actual producing acres. In addition, in Alberta, there are three reservations covering a net acreage interest of 26,157, of which 1,294 acres are capable of production.

Of the total of 4,430 leases, approximately 85 per cent, or 3,760, are freehold leases. The balance of 670 are Crown leases.

Sun Oil has acquired at Crown Reserve sales four proven and semi-proven leases in Alberta totalling 1,119 acres and three in Saskatchewan totalling 480 acres.

Appended to this submission on Table B is a detailed

statement of Sun Oil's producing wells in western Canada. Summarizing the data on wells, it will be noted that Sun Oil has a net interest in 199.25 oil wells of which 16.88 net interest wells are shut in. Sun Oil also has a net interest in 14.64 gas wells, of which 14.25 net interest wells are shut in. Its net gas production is approximately 270,000 cubic feet daily.

Sun Oil's production and allowables from wells in western Canada are shown on Table C, attached. Net production of oil is approximately 5,000 barrels daily, contrasted with an economic allowable of approximately 7,000 barrels daily and a Maximum Permissive Rate of 14,387 barrels daily.

To complete the picture, Sun Oil has an overriding royalty interest in six oil wells producing 13 barrels per day and an overriding royalty interest in 13 gas wells in British Columbia that are shut in awaiting a market.

In 1955, Sun Oil joined with 15 other western Canadian oil producers in constructing the Westspur Pipe Line which connects Saskatchewan oil fields with the Interprovincial line at Cromer, Manitoba. Sun Oil's interest in Westspur is 5 per cent.

Sun Oil has maintained an active interest in the development of the oil sands of the Athabasca region for the past five years. In 1952 two prospecting permits covering approximately 100,000

acres were obtained from the Alberta Government. They are located near the Bitumont Plant on the McMurray River north of the town of McMurray. In 1953 and 1954, Sun Oil expended $ 131,209 in core hole programs and electric log interpretations to evaluate the amount of oil sand and overburden present. In addition, Sun Oil engaged in process research applicable to heavy oils which to date has exceeded $ 1,000,000 in expenditures.

In 1955, the permit for one of the two tracts was surrendered, and lease application was made covering 11,200 acres on the other.

During the course of its exploratory work on oil sands, Sun Oil negotiated with Abasand Oils Limited and consummated a contract covering their Mildred Ruth Lake properties, an area explored by the Dominion Government. The Sun Oil-Abasand Oils lease encompasses 3,840 acres, in which Sun Oil's interest is 75 per cent.

Sun Oil is continuing its research into the economic development of the oil sands.

SUN'S CANADIAN OBJECTIVES

On May 15, 1954, at ceremonies dedicating the Sarnia Refinery, the Chairman of the Board of Directors of Sun Oil, Mr. Joseph N. Pew, Jr., made this statement:

> "As Sun Oil Company Limited develops in its organization as an integrated operation, we do not look forward to it remaining forever as a subsidiary or daughter company to our parent Sun Oil Company. We confidently expect ere too many years have elapsed that it will emerge rather as a sister organization with common ideals and philosophies, but nevertheless as a completely independent entity, as befitting companies operating under different though kindred flags."

This is a clear statement of the intentions of the Sun organization. In providing risk capital for the development of Canadian oil and gas production, in investing in the Sarnia Refinery, in the Sun-Canadian Pipe Line, and in the further development of the distribution system, the Sun organization has worked toward the realization of the goals of integration and independence outlined by Mr. Pew. As a part of the Canadian economy the Sun organization has been determined,

on the basis of ability, to contribute to things that are good for Canada and to refrain from doing things harmful to Canada.

The number of employees of Sun Limited has increased from 197 in 1947 to 547 in 1957. Of the total number of employees, 92 per cent are Canadian citizens, 5 per cent are British citizens, 1 per cent are U. S. citizens, 2 per cent are citizens of other nations. Among the managerial group of 27 individuals, 24 are Canadian citizens, one is a British citizen, and two are United States citizens.

Sun Oil's Canadian production activities disclose a similar picture. There were only three or four employees in 1945, whereas today there are 248, of whom 92 per cent are Canadian citizens. The managerial and technical group consists of 22 individuals, including 12 Canadians and ten U. S. citizens.

It should be pointed out that the managerial groups referred to are exclusive of officers or directors. None of the present officers or directors of either Sun Oil or Sun Limited is a Canadian citizen.

Particularly within the past two years excellent progress has been made in shifting from the United States to Canada a great variety of functions and administrative controls. Some of the shifts of functions have been made at a temporary

sacrifice in economy of operations, but they were a necessary part of the deliberate program of integration within Sun Limited which is now under way.

A major obstacle to integration and independence for Sun Limited continues to be the high operating losses incurred in the Canadian production activities of the Sun organization. It is not likely that individual stockholders would be content to invest in a separate undertaking for such a long pull without return as has been the case with the venture capital employed by Sun Oil in Canadian exploration and production on behalf of the ultimate benefit of Sun Limited.

Another obstacle is the fact that the capital requirement necessary to maintain Sun Limited's position as a refiner and marketer in the Canadian petroleum industry exceeds its present earning power. As of December 31, 1957, Sun Oil's investment in Sun Limited, together with earnings retained by Sun Limited, totaled $44,100,000. Sun Limited has not paid any dividends to the parent company; all funds have been reinvested for the further development of the business in Canada.

As the figures given indicate, the combined Sun Oil investment in Canadian production and in Sun Limited amounts to $100,600,000.

From the standpoint of the Sun organization as a whole, the investment made in Canada is regarded as sound and desirable, and in the best interests of the Company's stockholders. The foundation has been laid for a healthy Canadian company of substantial value. Integration, which in the oil industry is both a consequence and a method of competition, is considered to be a fundamental necessity in building successfully upon that foundation. It is a management principle of the Sun organization to base integration on the ability of each segment to earn profits within the limits of standards established within the company. Giving Sun Limited the ability to compete effectively on this basis before the umbilical cord is cut has from the beginning been Sun Oil's objective. The date is drawing closer, but economic events of the past year and a half have served to delay its attainment.

COMMENTS ON SPECIFIC QUESTIONS and TERMS OF REFERENCE

Markets for Canadian Crude

If Sun Oil could market today all of the crude oil which it is capable of producing in western Canada, its Canadian production operations would begin to show a profit and, other things being equal, it could proceed with the integration of production into the structure of Sun Limited as it has long planned. Therefore, an expanding market for Canadian crude is of direct interest to the Sun organization.

The growth in Canadian crude production and consumption over the past ten years, charted on graph paper, represents the type of curve that hungry business men see in their dreams. Exports contributed significantly for the first time in 1955 to the graceful upward arch of the curve. Following the first quarter of 1957, exports declined and domestic consumption leveled off. This is not surprising since economic activity throughout history has invariably been marked by ups and downs. The leveling-off of the curve in Canada was not exclusive to this Nation, but was experienced to an even more severe degree in the United States. The business systems of the two countries are systems of profit <u>and</u> loss, and it has customarily been the

periods of loss that have caused business men to bestir themselves to the degree that improved methods and advanced technologies ensued to the everlasting benefit of the public.

This comment is not made frivolously, but in the earnest conviction that if business men are to enjoy the rising opportunities afforded by the competitive enterprise system, they must stand ready to take the bitter with the sweet when a temporary contraction takes place. The game should not be played under one set of rules when the market is rising and under a different set when a decline sets in.

The recent faltering in the upward curve of Canadian crude oil production reflects, in our judgment, a temporary situation. It will pass and the upward trend will resume, responding to precisely the same economic incentive that stimulated its growth to date, unless some unforseeable, artificial step is taken to deny that incentive.

It is a matter of record that the finding and production of crude oil in the United States is becoming more difficult and more costly, and unless another East Texas oil field or two should be discovered -- a possibility which we do not discount -- the long-term outlook is one of increasing accommodation to imported oil as a supplement to the deficiency anticipated in domestic production.

We have not engaged in an economic study of the short-range and long-range prospects for increasing utilization of Canadian crude within its economic market. We have examined the results of such studies presented to you in submissions by other companies and we are not prepared to quarrel with the conclusions. Forecasting is at best an inexact science, the outcome of which depends always upon assumptions. If certain forecasters who were in authoritative positions with complete access to all the "facts" had been correct, the oil resources of the United States, for example, would have been completely exhausted in 1929, or 1935, or 1942, depending upon which forecaster you listened to. Had their forecasts proved true the United States market for Canadian crude oil would now be a large one, indeed.

Fundamentally, our long-run outlook is optimistic concerning the economic development and growth in population and demand throughout the whole of the great mid-continent area extending both north and south of the Canadian-U.S. border. This, plus the West Coast, seems to be the natural, economic market for the land-locked oil of western Canada.

Now, the question which appears to have been before you is not whether demand for Canadian oil will increase, but how

fast it will do so. How importantly the speed of growth in Canadian crude oil production is related to the economic well-being of the Nation, as opposed to the importance of the low-cost availability of petroleum as an encouragement to accelerating per-capita consumption no matter where the petroleum comes from, is a question for economic analysis beyond our competence.

It seems clear to us, however, that the stimulation of production by such a means as confining consumption in Quebec and surrounding areas supplied by Montreal refineries to products made from western Canadian crude could have no other effect than to discourage increasing per-capita consumption through higher prices in that Province and beyond. The economic implications of this proposal have been outlined in submissions which you have received from many others. Little purpose would be served by repetition. They make it evident that considerations beyond the realm of economics would have to be the justification for a favourable decision on this proposal.

In the long term, we do not believe that Canada would benefit from the artificial barriers which would necessarily have to be erected to insulate western Canadian crude at

Montreal against the competition of other crudes accessible to water transportation.

Equalization of Taxation

One point which has arisen during the course of your inquiry concerns the correction of inequities in the tax treatment of Canadian producers versus producers in Canada who are subject to the tax laws of the United States.

As matters now stand from a tax standpoint, it is to the overall advantage of Sun Oil to retain direct ownership and control over its exploration and production activities in western Canada as opposed to their integration into Sun Limited. This alone is not a sufficient factor to prevent such an integration, but it is certainly a significant consideration.

A point of discontent which seems to have reached currency in some quarters in Canada these days concerns the extent to which United States capital is employed in Canadian resource development. The net effect of Canadian tax regulations is one which does not encourage Canadian citizens, private or corporate, to commit risk capital to these developments to the degree that the tax regulations of the United States provide a positive incentive to explore continuously.

Policies Concerning Pipe Lines

Competition in the development and use of more efficient transportation facilities has produced substantial benefits for the ultimate consumers of petroleum products. Pipe lines, both crude and product, are built by oil companies for the same reasons that they build super tankers -- either to gain a cost advantage in relation to competitors, or to overcome a cost disadvantage in relation to competitors. In either case the ultimate consequence is lower cost of operation by all concerned in the affected market area, since all sellers must meet the price of the most efficient operator if they are to continue in business over the long term. Out of such lower costs come price advantages which consumers enjoy.

Unfortunately, concepts of the public interest in transportation which grew out of the early days when railroads had a monopolistic control in the transportation field in fact, as well as in theory, have carried over into unnecessary and unrealistic regulation of crude oil and product pipe lines.

What needs to be understood is that crude oil and product pipe lines are as much an industry facility as an analog computer devoted to the analysis of oil field reservoirs.

The public interest in these lines should be one of encouragement and of insuring safety and prohibiting nuisance. Regulation extending beyond this point results primarily in wasted motion, and in an economic activity every wasted motion must be paid for by someone, somewhere, sometime.

So far as Sun Limited's direct experience in pipe line operation is concerned, there were no extraordinary delays in obtaining the required approvals for construction of the Sun-Canadian Pipe Line and once construction had started the line was completed in 132 days over its 200 mile length.

Natural gas pipe lines developed in the United States under a set of circumstances different from those which traditionally surrounded crude oil and product lines and regulations applying to them have multiplied and compounded.

We have no specific suggestions concerning any current natural gas pipe line projects in Canada, but looking to the future we wish to suggest that the avoidance of governmental controls is a desirable guiding principle in considering the public interest in pipe line projects of all types.

With respect to natural gas pipe lines, specifically, we

would urge that in the development of governmental policy the door not be barred to recognition that a natural gas pipe line can be constructed purely as a carrier, with buyers at one end dealing directly with sellers at the other, each side negotiating in light of the circumstances which it confronts.

Buyers who are local distributing companies are already under utility regulation, a fact which would be taken into account in negotiations from their standpoint. Public interest in industrial buyers is minimal, and in any event the industrial buyer will negotiate on the basis of process requirements and relative fuel costs, with competition in his own markets requiring him to make decisions in the public interest -- i.e., favouring lowest cost. Gas producers are subject to the laws and regulations which apply to their particular business. Financing for a pipe line under this arrangement could not be obtained unless it represented a sound business proposition. Consequently, it seems to us that adequate protection of the public interest would exist, permitting continued application to natural gas pipe lines of the limited Dominion regulations under which crude oil and product lines have been encouraged and have operated for the public good.

On the question of the exportation of natural gas, our only

observation is that if it is logical to seek export markets for Canadian crude oil, which we believe it is, then it would seem equally logical to seek export markets for Canadian natural gas.

National Energy Board

Throughout the world for the past 30 years there has appeared a tendency to abandon the common philosophy under which the English-speaking nations achieved greatness. That philosophy was grounded in religious principles and the rule of law. Its principal tenet was individual liberty. In economic affairs, the practical expression of this philosophy was to be found in the free market system with the opportunity it provided for individual freedom of choice.

The flight from this philosophy has been characterized by a growing effort to place the planning of the economic affairs of men in the hands of government, and increasingly to substitute rule by agencies, bureaus and boards for rule by law. The process continues, despite repeated evidence from history, extending from the days of Confucius to modern times, that rather than contribute to the material well-being of the people, it tends to dull and eventually to snuff out the very inventiveness, ingenuity and enterprise upon which economic progress is based.

It is upon these considerations that we urge a long, hard look at the proposed National Energy Board and the functions and authorities to be assigned to it. No matter how innocuous may their charters seem, such agencies have been shown by history to yield to irresistible pressures to extend their activities, compound their regulations, and confuse those over whom they have jurisdiction. They tend to become foci for every unrest, and soon are engaged less in protecting the people than in equalizing competitive capabilities. In this process they negate inherent economic advantage and deny its benefit to people.

CONCLUSION

We have sought to provide a factual recital of the activities, with underlying background, of Sun Limited. Our purpose was to furnish information on the origin, development and aims of one Canadian subsidiary of a United States oil company in the belief that, as an example, it would serve to give the Royal Commission on Energy a more complete understanding of the considerations faced by such a company and the results it has achieved under existing laws, regulations and policies affecting the Canadian petroleum industry.

We have sought also to express our considered judgment on specific questions and terms of reference in the charge to the Royal Commission, and we will be pleased to answer any further specific questions to the best of our knowledge and ability.

Our concluding thought is that the petroleum industry in Canada has experienced in the past ten years one of the most remarkable growths ever recorded by any industry anywhere. Great impetus to the discovery and development of Canadian oil has, of course, been given by the positive encouragement from a tax standpoint which the laws of the United States afford. Adoption of comparable tax treatment by the Canadian Government would help not only to expand the incentive to discover, develop and produce Canadian oil, but would tend over the years to shift more of the emphasis of ownership and control in this activity into Canadian hands.

Aside from this, the spectacular growth of the Canadian petroleum industry has been achieved under Canadian laws, regulations and policies which substantially exist today. These, in our judgment, are deserving of study, for if they have encouraged so much in so short a time are they not worthy of continuance?

TABLE "A"

SUN OIL COMPANY Producing and Non-Producing Land Holdings in Western Canada

As of December 31, 1957

NON-PRODUCING

	Leases	Net Acres	Reservations	Gross Acres	Net Acres
Alberta	1,004	556,291	16	1,419,239	243,861
Saskatchewan	2,084	567,939	2	14,041	14,041
Manitoba	1,213	331,282	2	203,692	203,692
British Columbia	42	16,229	1	108,324	108,324
Northwest Territories	-	-	6	375,730	131,505
Totals	4,343	1,471,841	27	2,121,026	701,423
					1,471,841
Total Net Non-Producing Acreage					2,173,264

PRODUCING

	Leases	Gross Acres	Actual Producing Acres	Reservations	Net Acreage Interest	Net Producing Acres
Alberta	33	28,441	9,540	3	26,157	1,294
Saskatchewan	39	10,748	7,382			
Manitoba	15	3,422	2,142			
British Columbia	-					
Northwest Territories	-					
Totals	87	42,611	19,064	3	26,157	1,294
						19,064
Total Net Producing Acreage						20,358

TABLE "B"

SUN OIL COMPANY Producing Wells in Western Canada - As of May, 1958

OIL WELLS

Province	Producing Gross	Producing Net	Shut-In Gross	Shut-In Net	Total Gross	Total Net
Company Operated - Working-Interest Wells						
Alberta	52	46	-	-	52	46
Saskatchewan	87	86.61	8	8	95	94.61
Manitoba	47	47	6	6	53	53
British Columbia	-	-	-	-	-	-
TOTAL	186	179.61	14	14	200	193.61
Outside Operated - Working-Interest Wells						
Alberta	2	.76	4	1.38	6	2.14
Saskatchewan	34	2.00	-	-	34	2.00
Manitoba	-	-	-	-	-	-
British Columbia	-	-	3	1.50	3	1.50
TOTAL	36	2.76	7	2.88	43	5.64
GRAND TOTAL	222	182.37	21	16.88	243	199.25

GAS WELLS

Province	Producing Gross	Producing Net	Shut-In Gross	Shut-In Net	Total Gross	Total Net
Company Operated - Working-Interest Wells						
Alberta	-	-	11	6.50	11	6.50
Saskatchewan	-	-	-	-	-	-
Manitoba	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-
TOTAL	-	-	11	6.50	11	6.50
Outside Operated - Working-Interest Wells						
Alberta	1	.06	21	7.75	22	7.81
Saskatchewan	18	.33	-	-	18	.33
Manitoba	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-
TOTAL	19	.39	21	7.75	40	8.14
GRAND TOTAL	19	.39	32	14.25	51	14.64

TABLE "C"

SUN OIL COMPANY Production and Allowables from Wells in Western Canada - As of May, 1958

Figures in Barrels per Day

	PRODUCTION		ALLOWABLES	
			Sun's Net	
Province	Gross	Net	Economic	M.P.R.
Company Operated - Working-Interest Wells				
Alberta	1,735	1,345	1,825	4,970
Saskatchewan	3,310	2,865	3,400	5,925
Manitoba	850	740	1,600	3,000
British Columbia	-	-	-	-
TOTALS	5,895	4,950	6,825	13,895
Outside Operated - Working-Interest Wells				
Alberta	18	16	62	72
Saskatchewan	82	71	75	120
Manitoba	-	-	-	-
British Columbia	-	-	75	300
TOTAL	100	87	212	492
GRAND TOTAL	5,995	5,037	7,037	14,387
Overriding Royalty Oil Wells				
Alberta		7		
Saskatchewan		1		
Manitoba		5		
TOTAL		13		

NATURAL GAS PRODUCTION

Sun's net gas production, all from outside operated working-interest gas wells, is approximately 270 MCF per day.

Map of Mid-Valley Pipeline Company System and Principal Interconnecting Lines